



**AIR-22-442**  
**AGENDA REQUEST**  
**BUSINESS OF THE CITY COUNCIL**  
**CITY OF PEARLAND, TEXAS**

**AGENDA OF:** City Council Regular Meeting - Sep 26 2022  
**DATE SUBMITTED:** Aug 25 2022                      **DEPT. OF ORIGIN:** Finance Department  
**PREPARED BY:** Dara Eng

**SUBJECT:**            **Consideration and Possible Action - Second Reading of Ordinance No. 1620 -**  
An Ordinance adopting a tax rate of \$0.623765 and levying taxes for the use and support of the Municipal Government of the City of Pearland, Texas, and providing for the interest and sinking fund of the taxable year 2022.

**ATTACHMENTS:**    [Proposed Tax Rate Presentation](#)  
[1620-Tax Rate.1620](#)  
[Follow up to Budget Presentation 4 First Reading by Pearson and Johnson 9.15.22](#)  
[Kamkar - Supplement #1](#)  
[Kamkar - Supplement #2](#)

**FUNDING:**

<input type="checkbox"/> Grant	<input type="checkbox"/> Developer/Other	<input type="checkbox"/> Cash
<input type="checkbox"/> G.O. Bonds To Be Sold	<input type="checkbox"/> G.O. Bonds - Sold	<input type="checkbox"/> Rev. Bonds to Be Sold
<input type="checkbox"/> Rev. Bonds - Sold	<input type="checkbox"/> C.O.'s To Be Sold	<input type="checkbox"/> C.O.'s - Sold

## EXECUTIVE SUMMARY

### BACKGROUND

Tax Code Section 26.05 requires a taxing unit to adopt its tax rate before September 30 or by the 60th day after the taxing unit receives the certified appraisal roll, whichever day is later. The tax rate as proposed for the City of Pearland for tax year 2022, for fiscal year 2023, is \$0.623765 per \$100 valuation, which is above the No-New-Revenue Rate but below the Voter-Approval Rate. The City of Pearland held a public hearing on the tax rate on August 29, 2022. A second public hearing on the tax rate is scheduled for September 26, 2022. The tax rate, with property valuations, provides the property tax revenues needed for the payment of debt service obligation and for operating costs for departments such as public safety, parks, public works and general government activities.

The property tax rate is split into two components; maintenance & operations and debt service. The proposed maintenance & operations tax rate is \$0.285000, a decrease of \$0.024416 over the current year. The proposed debt service tax rate is \$0.338765, a decrease of \$0.053235 over the current year. 54.31% of the tax rate is allocated to debt service and 45.69% is allocated to maintenance & operations.

The maintenance & operations component funds the wide variety of essential public services the City effectively and efficiently provides in a growing community. Public services supported by property taxes include police, fire, streets, traffic, parks, stormwater management, and general government functions. The debt service component funds the annual debt obligations, similar to a residential mortgage payment, for capital improvements such as roads, drainage, parks, and facilities.

The City's debt service rate is utilized to pay the principle and interest on debt, but also pays for In-City MUD rebates. In FY23, MUD rebates are budgeted to cost \$7,763,930 - an increase of \$474,845 from FY22.

**In total, the proposed tax rate of \$0.623765 is lower than the current tax rate of \$0.701416.** A homeowner's property tax bill is based on appraised value and multiple taxing units such as school districts, counties, and MUD's that each charge varying tax rates. **In all example properties examined by staff, homestead property owners will see a decrease in the amount they are paying the City of Pearland in FY23 compared to FY22.**

The State of Texas has specific rules per SB2 that require certain language to be used when adopting a tax rate above the No New Revenue Rate. This language is listed below in the Policy/Goal Consideration section. The language required states that the proposed property tax rate rate is "effectively a 14.86% increase in the tax rate". **While required as part of state law, this is a misleading statement, as the proposed tax rate for FY23 (0.623765) is a significant decrease from the FY22 tax rate (0.701416).**

**New for Second Reading:** Budget Memo #4, title "Follow-Up to Budget Presentation #4 (First Reading)" outlined an alternative Alternative Proposal for small adjustment to acknowledge more one-time expenses. More information can be found in the attached memo, page 6. The alternative scenario provided changes \$122,363 in General Fund expenses to one-time expenditures (as opposed to recurring) and offsetting the decreased expense with a reduction in property taxes and TIRZ administrative charge revenue.

If Council has amended the FY23 Budget Ordinance to decrease expenditures by 122,363 then a motion to amend the tax rates as follows will be needed. "I motion to amend the total FY23 tax rate to 0.623020."

The accompanying tax rate decrease would need to occur during the reading of the tax ordinance. The total tax rate, if the \$122,363 option is enacted would be 0.623020. The O&M rate would be 0.284255 and the I&S rate would remain at 0.338765. This rate would reduce General Fund property tax revenues by \$95,888 and TIRZ administrative charge revenues by \$26,475.

## **SCOPE OF CONTRACT/AGREEMENT**

## **BID AND AWARD**

## **SCHEDULE**

## **POLICY/GOAL CONSIDERATION**

**Required Motion:** "I move that the property tax rate be increased by the adoption of a tax rate of 0.623765, which is effectively a 14.86 percent increase in the tax rate."

**A 60% majority must vote in favor of the tax rate ordinance by a record vote or the adopted tax rate will be the No New Revenue Rate.**

## **CURRENT AND FUTURE CIP FUNDING/FINANCIAL IMPACTS/DEBT SERVICE**

## **O&M IMPACT INFORMATION**

### **Recommended Action**

**Consideration and Possible Action Second Reading of Ordinance No. 1620** - An Ordinance adopting a tax rate of \$0.623765 and levying taxes for the use and support of the Municipal Government of the City of Pearland, Texas, and providing for the interest and sinking fund of the taxable year 2022.

# Property Tax Revenue

General Fund and Debt Service



# Proposed Property Tax Rate for FY23

$$0.28500 + 0.338765 = 0.623765$$

Maintenance & Operations  
Rate

Debt Rate

Total Proposed Property  
Tax Rate – A reduction of  
7.3 cents from prior year



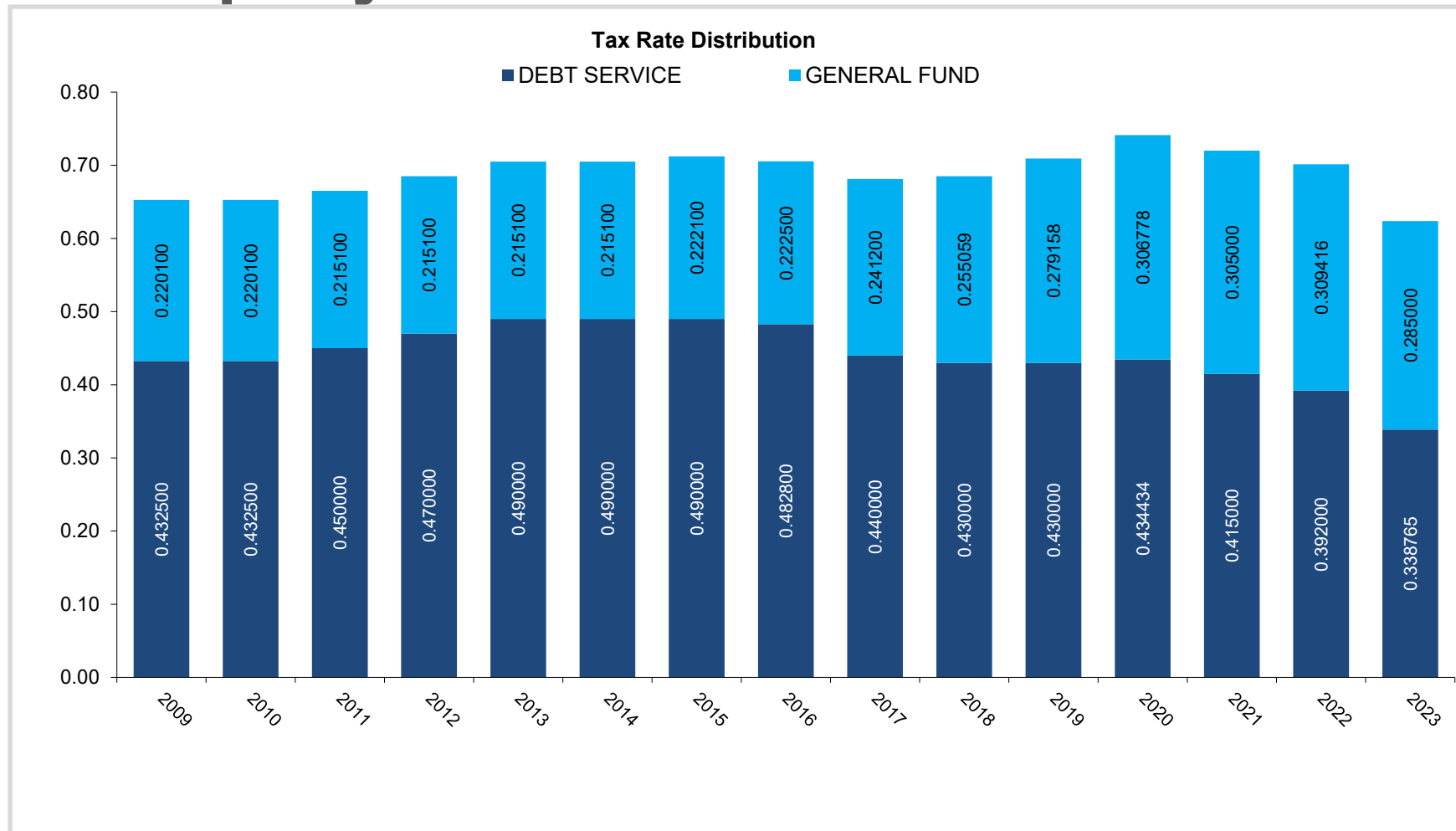
# Debt Service Rate

- The proposed debt service rate is 0.338765.
- A half cent reduction from 0.343765 to 0.338765 in the debt service rate reduced property tax revenue by \$643,541 in the debt service fund.
- The tax rate reduction also reduced TIRZ administrative charge revenue in the General Fund – decreasing revenue to the GF by \$175,086.
  - \$175,086 was reduced on the expenditure side in the General Fund by decreasing the transfer to the Infrastructure Maintenance Fund (Streets and Sidewalks).

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
<b>REVENUES</b>				
Property Taxes	\$ 38,374,500	\$ 39,350,712	\$ 38,476,392	\$ 43,951,802
Miscellaneous	763,893	747,205	750,449	702,979
Transfers	2,530,075	3,074,369	3,074,369	3,302,442
Bond Proceeds (Refunding)	32,622,641			
<b>TOTAL REVENUES</b>	<b>74,291,110</b>	<b>43,172,286</b>	<b>42,301,210</b>	<b>47,957,223</b>
<b>EXPENDITURES</b>				
MUD Rebates	7,116,217	7,591,760	7,289,085	7,763,930
Bond Payment	67,450,250	36,834,004	36,834,004	38,863,045
<b>TOTAL EXPENDITURES</b>	<b>74,566,467</b>	<b>44,425,764</b>	<b>44,123,089</b>	<b>46,626,975</b>
REV OVER/(UNDER) EXP	(275,357)	(1,253,478)	(1,821,879)	1,330,248
<b>BEGINNING FUND BALANCE</b>	<b>6,162,589</b>	<b>6,200,953</b>	<b>5,887,231</b>	<b>4,065,352</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 5,887,231</b>	<b>\$ 4,947,475</b>	<b>\$ 4,065,352</b>	<b>\$ 5,395,599</b>
Reserve 10% Over Policy	\$ 7,456,647 \$ (1,569,416)	\$ 4,442,576 \$ 504,899	\$ 4,412,309 \$ (346,957)	\$ 4,662,698 \$ 732,902

Scenario	Total Tax Rate	O&M Rate	Debt Service Rate
<b>Proposed Rate</b>	0.628765	0.285000	0.343765
<b>Debt Service Rate Reduced by 0.005</b>	0.625765	0.285000	0.338765
<b>Difference</b>	- 0.005	0	-0.005

# Proposed Property Tax Rate: 0.623765



- FY23 Proposed Tax Rate of **0.623765** is a **7.77** cent reduction from FY22 Adopted Tax rate of **0.701416**
- Since all Homestead Exempt Residents have their taxable value capped at a 10% increase, all non-Senior examples will have the City Tax Bill Decrease because the City tax rate reduced by  $(0.623765 - 0.701416) / 0.701416 = -11.07\%$ .

# Proposed Property Tax Rate: 0.623765

## Current Scenario for FY23

Comparison of Potential Property Tax Rate and Revenue						
General Fund and Debt Service Property Tax Rates	FY2022 Actual Rates & Amended Budget	Fiscal Year 2023*				Change Proposed FY 2023 to FY 2022 Actual Rates
		(1) No New Revenue Rate	(2) Updated Proposed Tax Rate	(3) Original Proposed Tax Rate	(4) Voter Approval Rate (+ 3.5% additional revenue)	
General Fund (O&M)	0.309416	0.199279	0.285000	0.285000	0.289846	-0.024416
Debt Service (including in-City MUD rebate obligation)	0.392000	0.343765	0.338765	0.343765	0.343765	-0.053235
Total	0.701416	0.543044	0.623765	0.628765	0.633611	-0.077651
G.F. Property Tax Revenue + TIRZ Admin Fee (in millions)	\$30.1 + \$12.7 = \$42.8	\$25.6 + \$10.2 = \$35.8	\$36.7 + \$13.0 = \$49.7	\$36.7 + \$13.2 = \$49.9	\$37.3 + \$13.3 = \$50.6	

\* For Fiscal Year 2023, the proposed rate in green is used in the recommended budget revenue.

- General Fund O&M rate *decreased* from .3094¢ in FY22 to .2850¢ in FY23.
- Debt Service Tax Rate *decreased* from .3920 cents in FY22 to .3388 cents in FY23.
- State calculation for NNR brings in *less* revenue than FY22 because State calculation includes debt service. Meaning that generally when you sell debt, less money will be available for operations with NNR.



# Proposed Property Tax Rate: 0.623765

## Current Scenario for FY23

Revenue Category	FY22 Adopted Budget	FY23 Proposed Budget	Change	Notes
<b>General Fund O&amp;M Property Tax revenue.</b> Current Taxes Account Only (no late fees, penalties, etc.)	\$30,709,155	\$36,681,811	\$5,972,656	Part of funding for supplements including additional firefighters, city-wide salary increases, Police staffing and equipment, etc.
<b>Debt Service Fund Property Tax revenue.</b> Current Taxes Account Only (no late fees, penalties, etc.)	\$38,905,515	\$43,601,802	\$4,696,287	Debt rates driven by Council approved and adopted CIP including the most-recent voter approved bond issue. <b>FY22 Debt Fund Budget was adopted with a purposeful net loss of \$1,253,478</b> to lower fund balance towards adopted reserve policy – which lowered the amount of property tax revenue needed to be collected in FY22.
<b>Property Tax – Current Tax Account Total Revenue GF and Debt Service Fund</b>	<b>\$69,614,670</b>	<b>\$80,283,613</b>	<b>\$10,668,943</b>	
TIRZ Admin Charge Revenue in GF	\$13,097,255	\$12,996,354	(\$100,901)	
<b>Total Current Taxes with TIRZ</b>	<b>\$82,711,925</b>	<b>\$93,279,967</b>	<b>\$10,568,042</b>	

# Homestead Property Tax Examples

## Property Tax Bill – Zero Growth Example

For Fiscal Year 2023, tax year 2022:

- The total tax bill for any household in Pearland is approximately between 2% to 3% of Appraisal Value
- With a proposed tax rate of 0.623765, the City of Pearland will make up 19% to 30% of the total tax bill depending on the properties location. The majority of the tax bill goes to public education and other entities.

	Tax Year 2021	Tax Year 2022	Annual \$ Change
Appraised Value	300,000	300,000	-
Homestead Cap Loss	-	-	-
Taxable Value	\$ 300,000	\$ 300,000	-

### Proposed Tax Rate Comparison of Values

Taxing Entity	Tax Year 2021			Tax Year 2022			Annual \$ Change
	Rate	Amount	% of Total Amount	Rate**	Amount	% of Total Amount	
Pearland Independent School District	1.3152	3,617	51.8%	1.3131	\$3,611	54.9%	(5.78)
City of Pearland	0.7014	2,069	29.7%	0.6238	\$1,840	28.0%	(229)
Brazoria County	0.3365	808	11.6%	0.2824	\$678	10.3%	(129.90)
Brazoria County Drainage District #4	0.1520	365	5.2%	0.1390	\$334	5.1%	(31.20)
Road & Bridge Fund (Brazoria County)	0.0500	119	1.7%	0.0500	\$119	1.8%	-
<b>Total</b>	<b>2.5551</b>	<b>6,977</b>		<b>2.4083</b>	<b>\$6,581</b>		<b>\$ (395.95)</b>
<b>% of Appraised Value</b>		<b>2.3%</b>			<b>2.2%</b>		

# Homestead Property Tax Examples

Looking at estimated individual tax bills, for base reference, **a zero-growth property** with a Taxable value after City Exemption of \$292,500 would see a **\$229 annual (\$19.08 per month) decrease** in the City of Pearland portion of their tax bill.

		Zero Growth		Homestead Example 1		Homestead Example 2		Homestead Example 3		Homestead Example 4		Homestead Example 5	
TY21 Actual City Tax Bill		\$ 2,069		\$ 1,766		\$ 1,293		\$ 1,206		\$ 1,806		\$ 1,176	
TY21 Pearland Taxable Value		\$ 292,500		\$ 251,745		\$ 184,353		\$ 171,900		\$ 257,478		\$ 167,691	
% Increase (Decrease)		0.0%		10.0%		10.2%		10.3%		10.0%		10.3%	
TY22 Pearland Taxable Value		\$ 292,500		\$ 276,920		\$ 203,081		\$ 189,590		\$ 283,226		\$ 184,960	
Adopted TY 2021 City Rate	Proposed TY 2022 City Rate	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual
0.7014	0.6238	\$ 1,840	(229)	\$ 1,727	\$ (38)	\$ 1,267	\$ (26)	\$ 1,183	\$ (23)	\$ 1,767	\$ (39)	\$ 1,154	\$ (22)
Total Tax Bill		\$ 6,581		\$ 6,852		\$ 4,261		\$ 3,945		\$ 8,391		\$ 3,838	
City of Pearland % of Total		28%		25%		30%		30%		21%		30%	
Total Tax as % of Taxable Value before City Exemption		2.2%		2.4%		2.0%		2.0%		2.9%		2.0%	

# Homestead Property Tax Examples

More realistically, looking at Homestead Example 8, a home with a value of \$509,300 that sees a 10% increase in Taxable Value would see a **\$69 annual (\$5.75 per month) decrease** in the City of Pearland portion of their tax bill.

As shown in the Senior Example HS 11, if you qualify your home for an age 65 or older or disabled person homestead exemption for taxes, the taxes on that home cannot increase while you own and live in that home. The City's tax \$ amount for this resident has not seen any increase since 2010.

		Homestead Example 6		Homestead Example 7		Homestead Example 8		Homestead Example 9		Homestead Example 10		Senior Example HS 11	
TY21 Actual City Tax Bill		\$ 1,473		\$ 2,213		\$ 3,166		\$ 2,133		\$ 2,144		\$ 206	
TY21 Pearland Taxable Value		\$ 209,986		\$ 315,437		\$ 451,425		\$ 304,083		\$ 305,643		\$ 170,045	
% Increase (Decrease)		10.0%		10.0%		10.0%		10.0%		10.0%		3.1%	
TY22 Pearland Taxable Value		\$ 230,984		\$ 346,980		\$ 496,568		\$ 334,491		\$ 336,207		\$ 175,330	
Adopted TY 2021 City Rate	Proposed TY 2022 City Rate	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual
0.7014	0.6238	\$ 1,441	\$ (32)	\$ 2,164	\$ (48)	\$ 3,097	\$ (69)	\$ 2,086	\$ (46)	\$ 2,097	\$ (47)	\$ 206	\$ -
Total Tax Bill		\$ 4,918		\$ 11,490		\$ 14,523		\$ 8,116		\$ 7,399		\$ 896	
City of Pearland %		29%		19%		21%		26%		28%		23%	
Total Tax as % of Taxable Value before City Exemption		2.1%		3.2%		2.9%		2.4%		2.1%		0.5%	

# Homestead Property Tax Examples

Looking at the Mayor as an example (property used at Mayor's suggestion), a home with a value of \$412,308 that sees a 10% increase in Taxable Value would see an actual dollar *decrease* of \$61 (\$5.08 per month) in the City of Pearland portion of the property tax bill.

Since all Homestead Exempt Residents have their taxable value capped at a 10% increase, all non-Senior examples will have the City Tax Bill Decrease because the City tax rate reduced by  $(0.623765 - 0.701416) / 0.701416 = -11.07\%$ .

		Mayor Example	
TY21 Actual City Tax Bill		\$ 2,820	
TY21 Pearland Taxable Value		\$ 402,000	
% Increase (Decrease)		10.0%	
TY22 Pearland Taxable Value		\$ 442,200	
Adopted TY 2021 City Rate	Proposed TY 2022 City Rate	TY 2022 Amount	Change from Prior Year Actual
0.7014	0.6238	\$ 2,758	\$ (61)
Total Tax Bill		\$ 11,031	
City of Pearland % of Total		25%	
Total Tax as % of Taxable Value before City Exemption		2.4%	

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# FY22 Property Tax Rate (City portion)

- Questions on tax rate?
- Next Step: Vote on proposed tax rate (first reading)



**ORDINANCE NO. 1620**

**An Ordinance adopting a tax rate of \$0.623765 and levying taxes for the use and support of the Municipal Government of the City of Pearland, Texas, and providing for the interest and sinking fund of the taxable year 2022.**

**BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF PEARLAND, TEXAS:**

**Section 1.** That there is hereby levied and there shall be collected for the use and support of the Municipal Government of the City of Pearland, Texas, and to provide Interest and Sinking Fund for taxable year 2022 upon all property, real, personal, and mixed within the corporate limits of said City subject to taxation, a tax of \$0.623765 on each One Hundred Dollars (\$100.00) valuation of property, said tax being so levied and apportioned for the specific purpose herein set forth:

- (1) For the maintenance and support of the General Government (General Fund), the sum of \$0.28500 on each \$100 valuation of property, and
- (2) For the Interest and Sinking Fund, the sum of \$0.338765.

**Section 2.** THIS TAX RATE WILL RAISE MORE TAXES FOR MAINTENANCE AND OPERATIONS THAN LAST YEAR'S TAX RATE; and THE TAX RATE WILL EFFECTIVELY BE RAISED BY 16.02 PERCENT AND WILL RAISE TAXES FOR MAINTENANCE AND OPERATIONS ON A \$100,000 HOME BY APPROXIMATELY \$16.02.

**Section 3.** All monies collected under this ordinance for the specific items therein named, be and the same are hereby appropriated and set apart for the specific purpose indicated in each item and that the Assessor and Collector of Taxes, the Chief Financial Officer, and the City Manager shall so keep these accounts as to readily and distinctly show the amount collected, the amounts expended, and the amount on hand at any time belonging to such funds. It is hereby made the duty of the Tax Assessor and Collector of Taxes and every person collecting money for the City of Pearland to deliver to the Chief Financial Officer and the City Manager, at the time of depositing of any monies, a statement showing to what fund such deposit should be made, and from what source received. All receipts for the City not specifically apportioned by this ordinance are hereby made payable to the General Fund of the City.

**ORDINANCE NO. 1620**

PASSED and APPROVED ON FIRST READING this the 12<sup>th</sup> day of September, A.D.,  
2022.

\_\_\_\_\_  
J. KEVIN COLE  
MAYOR

ATTEST:

\_\_\_\_\_  
FRANCES AGUILAR, TRMC, MMC  
CITY SECRETARY

PASSED and APPROVED ON SECOND and FINAL READING this the 26<sup>th</sup> day of  
September, A. D., 2022.

\_\_\_\_\_  
J. KEVIN COLE  
MAYOR

ATTEST:

\_\_\_\_\_  
FRANCES AGUILAR, TRMC, MMC  
CITY SECRETARY

APPROVED AS TO FORM:

\_\_\_\_\_  
DARRIN M. COKER  
CITY ATTORNEY





**To:** City Council  
**From:** Clay Pearson, City Manager  
Amy Johnson, CFO  
**CC:** Senior Staff  
**Date:** September 15, 2022  
**Re:** Follow-up to Budget Presentation #4 (First Reading)

15 September 2022  
To: Mayor and City Council members  
Important background to address the open comments and questions from First Reading on 9/12. Please review and ask questions or comments early next week well prior to our meeting responsibilities with adopting the FY 23 Budget on 9/26.  
Clay

### Executive Summary

The first reading of the proposed budget occurred on 9/12/22 in the City Council Chambers. A recording of that meeting is available [here](#), and a copy of the presentations can be found [here](#), [here](#), and [here](#).

This memo contains responses to questions or requests for more information made by City Council during 1<sup>st</sup> reading of the FY23 Proposed Budget. Responses are organized by Fund and Department.

### **Question #1: What effect would reducing the General Fund’s fund balance to zero dollars above policy have on the property tax rate and government services?**

First, it is important to reiterate the City’s adopted [Financial Policies](#), which provide guidance on the use of fund balance.

Section V.A and V.C of the City Council-adopted financial policies outline the 90-day fund balance requirement and put restrictions on the use of Fund Balance.

Section V.A of the City’s Financial Policies states: *“The City shall maintain the General Fund unrestricted fund balance equivalent to 90 days of the total operating expenditures of the General Fund. If the fund balance exceeds this amount, **funding non-recurring expenditures or funding Pay-as-You-Go capital projects in the following fiscal year may be used** (emphasis added) to draw down the balance.*

Further, section V.C states: *“Fund balance/Working Capital shall only be used for **emergencies, non-recurring expenditures/expenses or major capital purchases that cannot be accommodated through current year savings. Should such use reduce balances below the level established as the objective for that fund, restoration recommendations will accompany the request/decision to utilize said balances.**”*

Section II.A and II.B outline the requirements for a balanced budget.

*Section II.A lists the requirements for the City Manager to propose: “The City shall annually adopt a balanced budget where annual revenues plus other means of financing such as fund balance are equal to, or exceed, operating expenditures. Any increase in expenses, decrease in revenues, or combination of the two that would result in a budget imbalance will require budget revision, rather than spending unappropriated*

*surpluses or designated reserves to support ongoing operations. All budget revisions will require the vote and approval of City Council before any additional spending of City funds. Any year end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and the balance will be available for capital projects and/or “non-recurring” expenditures.”*

*Section II.B details the current funding basis: “The City shall budget and operate on a current funding basis. **Recurring expenditures shall be budgeted and controlled so as not to exceed current revenues. Recurring expenses will be funded exclusively with recurring revenue sources to facilitate operations on a current funding basis.**”*

Per the City’s financial policies, the reduction of property tax revenue with the intent to use General Fund’s fund balance to make up for the lost revenue is not consistent with Policy unless those items are one-time expenses.

In other words, the budgeted positions for improving public safety, 4 firefighters, 2 telecommunications operators and 1 police officer should not be funded out of fund balance per the City’s adopted financial policies. However, Council always has the ultimate authority on the use of fund balance, any may choose to use fund balance to pay for these positions.

**General Fund Projected Fund Balance**

The General Fund is forecast to be \$1,858,277 over the 90-day fund balance policy at the end of FY23. The estimated amount will change once revenues and expenditures are closed for FY22. If the fund balance dips below the 90-day policy the City’s Financial Management Policies requires a plan to replenish the fund balance. (Section II.L last paragraph).

	<b>FY 2021 Actual</b>	<b>FY 2022 Amended</b>	<b>FY 2023 Proposed</b>
Beginning Fund Balance	\$ 29,076,297	\$ 32,524,401	\$ 30,541,045
Revenue	94,083,921	105,001,128	109,315,462
Expenditure	90,570,329	106,984,484	110,711,878
Net	\$ 3,513,592	\$ (1,983,356)	\$ (1,396,416)
Ending Balance	\$ 32,589,889	\$ 30,541,045	\$ 29,144,629
Policy Minimum Balance (90 Days)	\$ 22,332,410	\$ 26,379,736	\$ 27,296,353
Amount Over/(Under) 90 Day Target	\$ 10,191,991	\$ 4,161,309	\$ 1,858,277
Days of Reserves	131	104	96

**Major One-Time Costs and Recurring Costs in the FY23 Budget**

The FY23 Proposed Budget contains a mixture of General Fund items that are one-time costs and recurring costs.

The FY 23 budget approved on First Reading already contains \$1,518,779 in major one-time costs. Of this, \$1,396,416<sup>1</sup> in expenses are currently being paid with General Fund's fund balance.

### FY23 Major Items by Cost Type

Items	One-time Cost	Recurring Cost
1 Police Officer	\$72,000	\$113,865
Pay Raise +5.5% (6.5% for Police and Fire Uniformed Employees)	\$0	\$3.8M
2 telecommunications operators	\$0	\$337,081
4 Firefighters	\$0	\$436,520
Drainage Regular Maintenance Crew	\$0	\$662,000
Purchase of Police Equipment	\$200,000	\$0
Updating the Unified Development Code	\$300,000	\$0
Increase Sick buyback from 40 to 60 hours	\$211,779	\$0
Master Drainage Plan	\$435,000	\$0
Fire Radio Replacements Year 2 of 2 <sup>2</sup>	\$300,000	\$0
<b>Total</b>	<b>\$1,518,779</b>	<b>\$5,349,466</b>

### Reduction in Tax Revenue

Moreover, a reduction in the M&O property tax rate will reduce the amount of revenue from the TIRZ administrative charge which is “free” money to the General Fund operating from the TIRZ #2 that would otherwise go towards allowed projects. To reduce the number of days in reserve to 90 would require a \$1,858,277 reduction in General Fund revenue, split between Property Tax revenue and TIRZ Administrative Charge Revenue.

A reduction in revenues leading to the minimum fund balance policy of 90 days would involve a reduction of 0.011335 from the proposed rate. The proposed FY23 budget property tax alternative scenario will decrease the Maintenance and Operations (M&O) rate from 0.28500 to 0.273665 – reducing O&M Property Tax revenue from \$36,681,811<sup>3</sup> to \$35,222,904 – a \$1,458,907 reduction in property taxes and General Fund revenue. With this rate, the reduction in TIRZ Administrative Revenue would be \$400,070 – decreasing from \$13M to \$12.6M.

<sup>1</sup> See “Net” figure for “FY 2023 Proposed” Column General Fund Income Statement

<sup>2</sup> Year 1 of 2 funded via FY22 Budget Amendment #5

<sup>3</sup> Please note that this amount is the Property Taxes Current Taxes Account. The Budget Book shows property taxes inclusive of delinquent taxes, penalties and interests, and PILOTS, why the budget book property tax revenue on the General Fund Tab – Page 1 is larger than the \$36,681,811 in current taxes discussed here.

**Combining the TIRZ reduction and further Property Tax rate reductions creates a total revenue decrease of \$1,858,277 in the General Fund.**

The total rate would decrease from 0.623765 to 0.612430 by taking fund balance to offset expenditures. To date, there have not been off setting recurring costs identified, but there is a section later in this memo for a small change to make all of the recurring costs offset by use of General Fund’s fund balance.

As can be seen on the next page, the additional tax rate decrease would reduce homestead owners City property tax bills, on average, by an additional ~\$34. Paired with a proposed rate that already provides lower tax bills to residents, homestead owners bills would average ~\$91 less than what they paid in FY22.

**Changes on Sample Tax Bills -- Property Tax Rate of 0.623765 Scenario**

Example Property <sup>4</sup>	City of Pearland Property Tax Bill Change Compared to Prior Year Proposed Rate of 0.623765	City of Pearland Property Tax Bill Change Compared to Prior Year Alternative Rate of 0.612430	Difference from Proposed Rate to Alternate Rate
Zero Growth	-\$229	-\$263	-\$34
Homestead Example 1	-\$38	-\$70	-\$32
Homestead Example 2	-\$26	-\$49	-\$23
Homestead Example 3	-\$23	-\$45	-\$22
Homestead Example 4	-\$39	-\$71	-\$32
Homestead Example 5	-\$22	-\$43	-\$21
Homestead Example 6	-\$32	-\$58	-\$26
Homestead Example 8	-\$48	-\$88	-\$40
Homestead Example 9	-\$69	-\$125	-\$56
Homestead Example 10	-\$46	-\$84	-\$38
Homestead Example 11	-\$47	-\$85	-\$38
Homestead Example Mayor	-\$61	-\$112	-\$51
<b>Average</b>	<b>-\$57</b>	<b>-\$91</b>	<b>-\$34</b>

<sup>4</sup> Details on these example properties can be found at the end of this memo in Appendix A.

**Restatement of actual revenue differences and impact of State Worksheet “NNR”**

Potential Property Tax Rates and General Fund Revenue					
FY 23					
	FY22 Adopted Rate	"No New Revenue" Rate from State Worksheet	Alternate Rate to Extinguish Fund Balance over Policy	Proposed Rate	Voter Approval Rate Max (+3.5%) from State Worksheet
General Fund Rate(O&M)	0.309416	0.199279	0.273665	0.285000	0.289846
Debt Service Rate	0.392000	0.343765	0.338765	0.338765	0.343765
<b>Total Property Tax Rate</b>	<b>0.701416</b>	<b>0.543044</b>	<b>0.612430</b>	<b>0.623765</b>	<b>0.633611</b>
Revenue (Difference from FY22 Adopted)	\$30.1M	\$26.2M (\$3.9M less)	\$35.2M (\$5.1M more)	\$36.7M (\$6.6M more)	\$37.3M (7.2M more)
TIRZ Admin Revenue (Difference from FY22 Adopted)	\$12.7M	\$10.2M (\$2.5M less)	\$12.6M (\$100K less)	\$13.0M (\$300K more)	\$13.3M (\$600K more)
<b>Total Revenue</b>	<b>\$42.8M</b>	<b>\$35.8M</b>	<b>\$47.8M</b>	<b>\$49.7M</b>	<b>\$50.6M</b>
<b>Revenue Change from FY22</b>		\$7M less	\$5.0M more	\$6.9M more	\$7.8M more
Taxable Value to City	\$ 8,349,767,700	\$ 11,072,015,057	\$ 11,072,015,057	\$ 11,072,015,057	\$ 11,072,015,057
Property Tax Revenue as % of Taxable Value	0.36%	0.24%	0.32%	0.33%	0.34%

**Analysis of Using Fund Balance for Recurring Costs**

The positive aspect of further lowering the tax rate the full amount is that homestead owners would pay ~\$34 less in property taxes for the year. However, there are negative implications for the FY24 budget if Council chooses to override the City’s financial policies.

- First, credit rating agencies will notice that the City has elected to not follow its own financial policies. This could result in a negative change to the City’s credit rating, which would lead to higher interest rates and thus higher costs on capital projects.
- Second, being at the policy minimum somewhat increases risk by removing money that may be needed in the event of an emergency. If Council wishes to hedge itself against a potential economic recession, it may consider maintaining a fund balance above the 90-day policy minimum.
- Third, under SB2, there are tax rate implications for FY24. Reducing the O&M rate in FY23 will lower the No-New-Revenue (NNR) revenue available for O&M in FY24. As the City sells debt in FY23 the No New Revenue rate will require moving a portion of the total tax rate from O&M to Debt Service – meaning less money for O&M. This is the same issue the City is seeing with the No New Revenue Rate in FY23. Under the NNR there will likely be less O&M property tax revenue in FY24 – but the recurring costs paid for by fund balance in FY23 will remain. It is unclear if the City would be able to maintain the new staff being added in FY23 under the FY24 NNR rate. Paying for recurring costs out of fund balance would almost certainly mean less budget flexibility come FY24 – as those costs would become recognized as recurring costs (unless the positions are removed from the budget in FY24 after having been added in FY23).

- Fourth, **these are projections.** As we learned in FY22 revenues can come in higher or lower than expected. Thus, as the City reduces reserves to the policy minimum the fallout from a revenue shortfall would become more impactful due to a decreased reserve. **Of particular note is the Harris County uncertified tax rolls,** which will not be certified until after the budget and tax rate adoption. In general, last year Harris County *overestimated* the uncertified tax rolls for numerous cities who then found themselves with less property tax revenue once the rolls were finally certified after budgets and tax rates were adopted.

### **Alternative Proposal for small adjustment to acknowledge more one-time expenses**

The City's adopted financial management policies outline that General Fund's fund balance, per adopted policy, may only be used to pay for one-time expenses. Since the reduction in property tax revenue is a recurring revenue decrease (from the proposed rate) it would need to be accompanied with reduced recurring expenses, or the use of fund balance for more one-time items.

Fund balance could be used to offset **all** of the \$1,518,779 in one-time costs. This would increase the use of fund balance by moving (\$1,518,779-\$1,396,416) \$122,363 in expenditures from recurring sources (eg; property tax revenue) to one-time revenue sources (eg; use fund balance).

If the City Council wishes to follow the current financial policies, they could reduce the property tax rate and TIRZ #2 revenue by a total of \$122,363 – maximizing the use of fund balance to reduce property taxes while adhering to financial policies. For the \$122,363, the total property tax rate would be 0.623020. The O&M rate would be 0.284255 and the I&S rate would remain at 0.338765. This rate would reduce the GF property tax revenues by \$95,888 and TIRZ administrative charge revenues by \$26,475.

### **Conclusion**

Council is the ultimate authority on the use of fund balance and may choose to override the City's financial policies to pay for recurring costs with fund balance. As always, there are tradeoffs between following financial policies, minimizing tax burden, and providing services. The alternate proposal provides a middle ground for a further tax rate reduction while adhering to the adopted financial policies.



**Question #2: Did City staff account for the fact that some residents paid 10 base charges this past year when calculating the minimum necessary FY 23 water rates in the model?**

Base charges are established on a calendar year basis, and as shown below, there are 12 per cycle per year. It is important to once again state that any assertion otherwise about more or less base charges is not accurate.

2022			2022			2022			2022		
12/14/2022	12/28/2022	1/21/2023	11/19/2022	12/3/2022	12/27/2022	11/26/2022	12/11/2022	1/5/2023	12/3/2022	12/18/2022	1/12/2023
10/13/2022	10/27/2022	11/20/2022	9/18/2022	10/3/2022	10/27/2022	9/25/2022	10/10/2022	11/3/2022	10/2/2022	10/20/2022	11/14/2022
9/11/2022	9/30/2022	10/24/2022	8/17/2022	9/4/2022	9/28/2022	8/24/2022	9/11/2022	10/5/2022	8/31/2022	9/23/2022	10/17/2022
8/10/2022	8/31/2022	9/26/2022	7/16/2022	8/6/2022	8/30/2022	7/23/2022	8/13/2022	9/6/2022	7/30/2022	8/25/2022	9/19/2022
7/9/2022	8/1/2022	8/25/2022	6/14/2022	7/7/2022	8/1/2022	6/21/2022	7/14/2022	8/8/2022	6/28/2022	7/28/2022	8/22/2022
6/7/2022	7/2/2022	7/26/2022	5/13/2022	6/7/2022	7/1/2022	5/20/2022	6/14/2022	7/8/2022	5/27/2022	6/28/2022	7/22/2022
5/6/2022	6/2/2022	6/27/2022	4/11/2022	5/6/2022	6/1/2022	4/18/2022	5/15/2022	6/8/2022	4/25/2022	5/29/2022	6/22/2022
4/4/2022	5/3/2022	5/27/2022	3/10/2022	4/8/2022	5/2/2022	3/17/2022	4/15/2022	5/9/2022	3/24/2022	4/29/2022	5/23/2022
3/3/2022	4/3/2022	4/27/2022	2/6/2022	3/9/2022	4/4/2022	2/13/2022	3/16/2022	4/11/2022	2/20/2022	3/30/2022	4/25/2022
1/30/2022	3/4/2022	3/28/2022	1/5/2022	2/7/2022	3/3/2022	1/12/2022	2/14/2022	3/10/2022	1/19/2022	2/28/2022	3/24/2022
12/29/2021	2/2/2022	2/28/2022	12/4/2021	1/8/2022	2/1/2022	12/11/2021	1/15/2022	2/8/2022	12/18/2021	1/29/2022	2/22/2022
11/27/2021	1/3/2022	1/27/2022									
13	13*	13	12	12	12	12	12	12	12	12	12
*2nd Bill Date not assessed base charges, garbage and MUD			2 Due Dates in same month are 30 days apart.								

As covered with Council earlier this year, FY23 Rate is mainly driven by FY23 Bond Coverage Ratio. This ratio was written in the City [Bond Ordinance](#) and monitor by creditors such as TWDB. The ratio is driven by the following factors:

- $Bond\ Coverage\ Ratio = \frac{(Revenue - Operating\ Expenses)}{Current\ Debt\ Obligations}$
- FY23 Forecasted Revenue are driven by estimated future usage that based on the last 3 years of usage and system growth.
- Revenue and Expenses recorded in FY22 will not impact FY23 Bond Coverage Ratio.

Annual water revenues reported in the Annual Comprehensive Financial Report are not broken down into base charges and usage, it is strictly amounts billed during the 365-day fiscal year.

Lastly, the rate model is run through the budget process to try to best predict the revenues needed to run the business of the Enterprise Fund. The model and annual budgeting process should not to be conflated with the audit and accrual numbers of the past actual amounts used. Budget and Audit are based on different accounting standards and require significant financial expertise to compare. Despite multiple staff explanations about this, some continue to try and tie them to each other. While the outcome of the audit should track closely with the projected numbers of the budget, trying to tie the two together dollar for dollar is not an efficient use of staff

time, especially in the light of these same questions having been repeatedly answered over the past two years.

Please note as well that the rate model developed in-house by staff has been reviewed by Lechowicz & Tseng Municipal Consultants and determined to be sound and accurate for its assumptions and calculations. The final report should be available late next week.

**Question #3: What is budgeted in the Infrastructure Reinvestment Fund (Streets & Sidewalks)?**

The FY23 proposed budget contains \$1,593,714 for Street and Sidewalk maintenance. In FY22, additional money was added through budget amendments to increase this budget to \$2,406,453. While the FY23 proposed budget is below the FY22 Amended budget, it is a \$131,243 (9%) higher than the FY22 original adopted budget. The 9% growth represents fiscally sustainable growth not reliant on one-time influxes of General Fund cash into the fund.

On the other hand, per the City Engineer, an additional \$2.8M in annual funding is needed to maintain the Street and Sidewalk network at the current condition level. The total annual budget would need to be ~\$4.4M, a 176% percent increase, to be able maintain our street and sidewalk infrastructure quality. As infrastructure ages and is not maintained properly the cost of repairs will increase exponentially.

We should work to address this shortfall in the long-term, or else future ratepayers will bear substantially higher infrastructure costs (taxes) and worse quality street and sidewalk infrastructure.

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
<b>REVENUES</b>				
Investment Earnings	\$ 106	\$	\$ 250	\$
Transfers	1,609,752	1,462,471	2,406,203	1,593,714
<b>TOTAL REVENUES</b>	<b>1,609,858</b>	<b>1,462,471</b>	<b>2,406,453</b>	<b>1,593,714</b>
<b>EXPENDITURES</b>				
Streets	1,113,038	1,500,000	3,687,704	940,894
Sidewalks	36,549	53,000	1,294,403	652,820
<b>TOTAL EXPENDITURES</b>	<b>1,149,587</b>	<b>1,553,000</b>	<b>4,982,107</b>	<b>1,593,714</b>
REV OVER/(UNDER) EXP	460,271	(90,529)	(2,575,654)	
<b>BEGINNING FUND BALANCE</b>	<b>966,272</b>	<b>90,649</b>	<b>1,426,543</b>	<b>476</b>
Recognizing Prior Year Project Expenditures			1,149,587	
<b>ENDING FUND BALANCE</b>	<b>\$ 1,426,543</b>	<b>\$ 120</b>	<b>\$ 476</b>	<b>\$ 476</b>

The FY22 expenditures recognized the total programmatic funds made available since FY21. However, prior year expenditures should have been excluded. There is a line titled "Recognizing



Prior Year Expenditures” recognizing this so that funds will not be double spent. Fund balance is expected to finish on September 30,2022 at \$476.

**Question #4: What is budgeted in the Debt Service Fund?**

The Tax-Backed Debt Service Fund has \$47.9M in revenue budgeted. This is an increase of \$5,656,013 over the FY22 Amended Budget. The FY22 amended budget for this fund was purposefully adopted to spend down \$1.8M in fund balance to reduce the tax rate in FY22. The fund in FY23 does not have extra fund balance to perform the same tax rate maneuver in FY23. Indeed, FY23’s revenue must adjust for last year’s one time reduction in revenue while also covering increased debt service costs.

Tax-Backed Debt Service Fund Expenditures in FY 23 are budgeted to be \$46.6M – an increase of \$2,503,886. Of this, ~\$500K in additional money is budgeted for MUD rebates, which are *estimated* to cost ~\$7.75M this year. Bond Payments are increasing by ~\$2M over the FY22 amended budget. Bond payments are used to pay back debt-funded CIP projects, with the exception of Enterprise Water and Sewer projects, which are funded out of the Enterprise System.

The Debt Service Fund has been amended to reflect a somewhat smaller property tax levy for FY 23 than originally proposed and maintains \$732K over minimum fund balance given uncertainties with MUD payments and the Harris County certified valuation.

	<b>FY 2021 ACTUAL</b>	<b>FY 2022 ORIGINAL BUDGET</b>	<b>FY 2022 YEAR END AMENDED</b>	<b>FY 2023 PROPOSED BUDGET</b>
<b>REVENUES</b>				
Property Taxes	\$ 38,374,500	\$ 39,350,712	\$ 38,476,392	\$ 43,951,802
Miscellaneous	763,893	747,205	750,449	702,979
Transfers	2,530,075	3,074,369	3,074,369	3,302,442
Bond Proceeds (Refunding)	32,622,641			
<b>TOTAL REVENUES</b>	<b>74,291,110</b>	<b>43,172,286</b>	<b>42,301,210</b>	<b>47,957,223</b>
<b>EXPENDITURES</b>				
MUD Rebates	7,116,217	7,591,760	7,289,085	7,763,930
Bond Payment	67,450,250	36,834,004	36,834,004	38,863,045
<b>TOTAL EXPENDITURES</b>	<b>74,566,467</b>	<b>44,425,764</b>	<b>44,123,089</b>	<b>46,626,975</b>
REV OVER/(UNDER) EXP	(275,357)	(1,253,478)	(1,821,879)	1,330,248
<b>BEGINNING FUND BALANCE</b>	<b>6,162,589</b>	<b>6,200,953</b>	<b>5,887,231</b>	<b>4,065,352</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 5,887,231</b>	<b>\$ 4,947,475</b>	<b>\$ 4,065,352</b>	<b>\$ 5,395,599</b>
Reserve 10% Over Policy	\$ 7,456,647 \$ (1,569,416)	\$ 4,442,576 \$ 504,899	\$ 4,412,309 \$ (346,957)	\$ 4,662,698 \$ 732,902

More information is available on the [City’s FY23 Budget Development Website](#).

<https://www.wsj.com/articles/markets-brace-for-hard-landing-as-fed-delivers-sobering-message-11663816181>

ECONOMYCAPITAL ACCOUNT

# Markets Brace for Hard Landing as Fed Delivers Sobering Message

Wall Street sees inflation-taming efforts as likely to result in a recession



By *Greg Ip* [Follow](#)

Sept. 22, 2022 5:30 am ET

This time, markets understood quite clearly what the Federal Reserve meant: Inflation is too high and it will likely take a recession to get it down.

There is really no other way to interpret the economic and interest-rate projections Fed officials released Wednesday, and Chairman Jerome Powell's accompanying remarks.

Markets expected the Fed to raise its interest-rate target by 0.75 percentage point, to a range of 3% to 3.25%, but not that officials would also project rates would reach 4.6% in a year's time, up sharply from the peak 3.8% rate projected in June.

The revisions to officials' economic outlook were less surprising, but just as sobering. Until this week, officials had projected what has been dubbed "immaculate disinflation": Inflation, now running above 8%, would fall sharply to around 2%, with virtually no increase in unemployment.

Such a combination hasn't occurred in the post-World War II era. Now, though, policy makers see unemployment reaching 4.4% in a year, compared with 3.7% now and a recent low of 3.5%. Since 1948 that magnitude of increase has occurred only in or around recessions.

It is unprecedented for the Fed to predict so steep a rise in unemployment "before a recession has already begun," Derek Tang of LH Meyer/Monetary Policy Analytics, a financial-research firm, wrote on Twitter. "They are trying to tell us there will be a hard landing; there is no other way."

In July, markets rallied on remarks by Mr. Powell that were interpreted as foreshadowing a pivot to rate cuts. That interpretation turned out to be wrong, and on Wednesday, investors didn't repeat the mistake. Major stock-market indexes ended the day sharply lower, and two-year Treasury bond yields moved further above 10-year yields. Such yield-curve inversions have preceded every recession since 1980.

Mr. Powell didn't sugarcoat things. Inflation has to come down, he said, and that requires a softer labor market. "I wish there was a painless way to do that. There isn't," he told reporters.

Elaborating, he said, "No one knows whether this process will lead to a recession or, if so, how significant that recession would be." It depends, he noted, on how quickly wage and price pressures subside, which in turn depends on whether people continue to expect a return to 2% inflation, and whether the supply of labor improves.

He didn't repeat, as he has in earlier news conferences, hopes for a soft landing, which is a slowing in growth sufficient to reduce inflation without a recession. "The chances of a soft landing are likely to diminish to the extent that policy needs to be more restrictive, or restrictive for longer," he said, which is precisely what the Fed just warned lies ahead.

Yet there were enough mixed signals to raise questions about whether the Fed does in fact plan to do enough to bring inflation down. For one thing, officials still expect economic growth of 1.2% next year, which is more like a soft landing than a recession—and stronger than the expected rise in unemployment would typically entail.

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Moreover, 4.6% isn't, in the scheme of things, a very high interest rate, compared to the task at hand. To slow growth and reduce inflation the Fed must typically push real interest rates (the nominal rate minus inflation) well into positive territory. Stripping out volatility from energy and other factors, Mr. Powell suggested underlying inflation today is around 4.5%. If so, then 4.6% is around zero in real terms.

So how, then, does inflation fall to 3.1% (excluding food and energy) in a year, as Fed officials project? They implicitly assume much of it will happen painlessly as supply-chain disruptions ease and rising labor-force participation reduces wage demands. This is plausible; yet as Mr. Powell admitted, that has been the expectation since the start of the year and it hasn't happened. There has been, in recent months, some relief in the form of falling energy costs and improved supply chains, but that has been swamped by upward pressure on prices of almost everything else—a result of a strong job market still delivering 10% annual growth in wage and salary income.

So Mr. Powell has delivered, and markets got, a pessimistic message. It isn't clear that it is pessimistic enough.

Write to Greg Ip at [greg.ip@wsj.com](mailto:greg.ip@wsj.com)

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## **Inflation and the Economy**

Analysis from The Wall Street Journal, selected by the editors

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**Fed Raises Interest Rates Again**

**The Fed's Surprising Record With Soft Landings**

**High Food Prices Are Getting to People**

**Climbing Housing Costs Prop Up Inflation**

**Electric Bills Soar Across the Country**

**It Now Costs \$300,000 to Raise a Child**

**Are We in a Recession Now?**

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*Appeared in the September 23, 2022, print edition as 'Markets Now Brace for a Hard Landing'.*

<https://www.wsj.com/articles/the-trouble-with-butter-tight-dairy-supplies-send-prices-surging-ahead-of-baking-season-11663846684>

# The Trouble With Butter: Tight Dairy Supplies Send Prices Surging Ahead of Baking Season

High costs for farmers and labor shortages mean lofty prices for the spread; 'I have kind of a butter army'

*By Jesse Newman*

Updated Sept. 22, 2022 4:13 pm ET

All the world's inflation woes are melting into a stick of butter.

Lower milk production on U.S. dairy farms and labor shortages for processing plants have weighed on butter output for months, leaving the amount of butter in U.S. cold storage facilities at the end of July the lowest since 2017, according to the Agriculture Department.

Tight supplies have sent butter prices soaring at U.S. supermarkets, surpassing most other foods in the past year. U.S. grocery prices in August rose 13.5% during the past 12 months, the largest annual increase since 1979, according to the Labor Department. Butter outstripped those gains, rising 24.6% over the same period.

The forces at work in butter highlight the challenge of curtailing inflation. Economic pressures fueling high prices for livestock feed, labor shortages and other factors could persist, keeping prices for the kitchen staple elevated longer term.

On average, butter prices hit \$4.77 per unit in the four-week period ending Aug. 27, the highest level since at least 2017, according to Nielsen.

While consumers pay up for butter, some U.S. producers are working to squeeze out more sticks ahead of the busy holiday baking season.

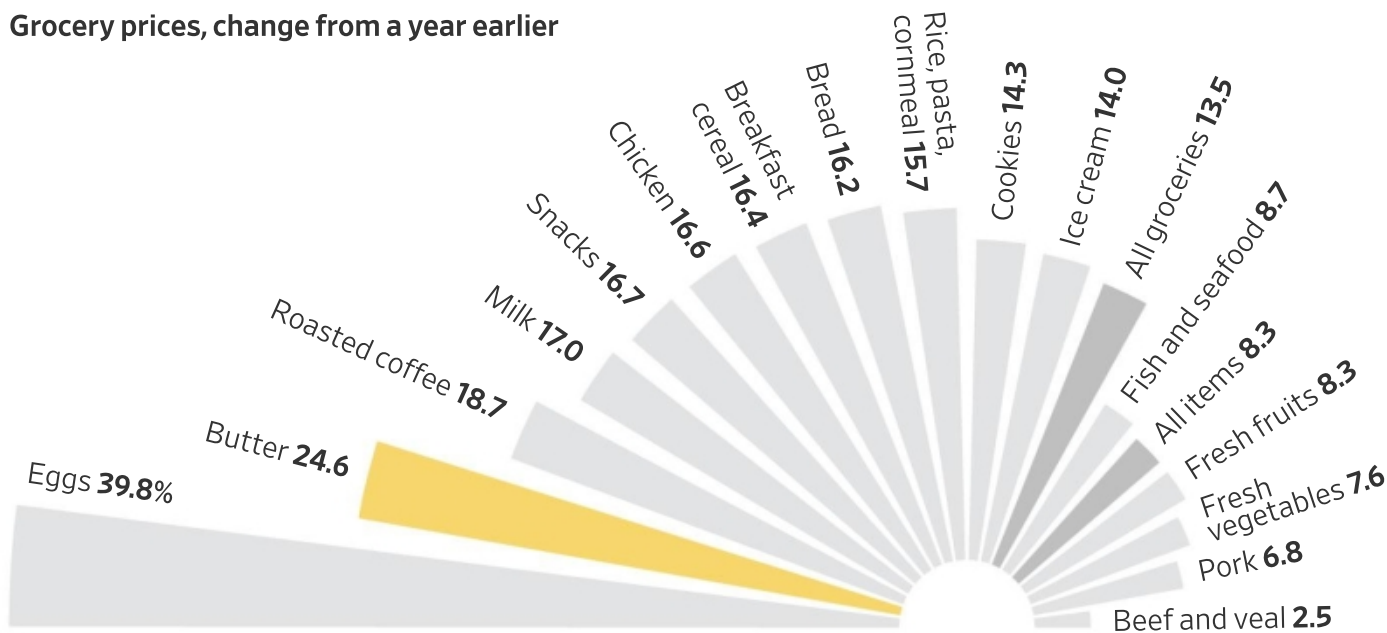
Joe Coote, chief executive of Washington-based Darigold Inc., a major U.S. dairy processor, said the company is trying to open up more production capacity at its two butter plants in the Northwest. Mr. Coote said Darigold is looking for ways to run its butter churns and packaging lines more quickly, and with less down time.



“We want to run the assets we have harder when we can get more milk off farm,” Mr. Coote said.

The problem for butter starts with milk. The U.S. dairy herd contracted last year as farmers’ costs surged. Rising expenses tied to feed, labor and other goods have pinched farmers’ margins despite record-high milk prices.

Grocery prices, change from a year earlier



Note: As of August 2022.

Source: Labor Department

Jemal R. Brinson/THE WALL STREET JOURNAL

Fewer cows resulted in less milk for butter churns, which pump out much of their butter in the first half of the year to be stored ahead of strong demand from home bakers during the winter holidays. Milk production through June declined by 1%, a sizable loss compared with the typical 1.5% and 2.5% annual growth, dairy economists said, though farmers have been rebuilding their herds, boosting milk production since then.

In the U.S. dairy industry’s hierarchy, bottlers typically get first dibs on milk, then manufacturers of goods such as ice cream, yogurt and cheese. Much of what’s left winds up in butter, exacerbating the squeeze for butter churns in periods of short supply. That is especially true in recent years as dairy processors have brought new or expanded cheese plants online, boosting demand for milk to turn into cheese, dairy executives and economists said.

Labor shortages have prompted some butter makers to reduce or idle production, according to Tanner Ehmke, an economist at agricultural lender CoBank.

Marshall Reece, a senior vice president at Minnesota-based Associated Milk Producers Inc., said the company's butter production is down between 5% and 10% this year compared with pre-pandemic years due to short staffing. Starting in 2021, AMPI has struggled to fully staff evening shifts at its butter plant in New Ulm, Minn., reducing the number of production lines it can run.

"It's the second shift that typically runs over family time that's become harder and harder to fill," Mr. Reece said.

Following declines in 2021, U.S. butter production fell 2% through July, according to USDA. Butter in cold storage facilities during the same period dropped 21% to 314 million pounds.

Prices of commodity butter traded on the Chicago Mercantile Exchange have soared nearly 40% this year, reaching more than \$3.20 per pound during trading this month, the highest on record.

Shifts in global trade patterns have taxed butter supplies. Since 2016, the U.S. has imported more butter than it exported, from countries such as Ireland and New Zealand. That dynamic reversed in 2021, with U.S. exports this year through July surging 30% versus the same period last year as higher butter prices in foreign markets earlier this year made U.S.-produced butter more attractive, according to federal data and dairy economists.

Dairy executives and economists say rising costs are pressuring manufacturers' profit margins. Prices for cream, a key component of butter, have soared in recent months, with some butter makers opting to sell cream to manufacturers of goods, such as ice cream, rather than churn it into butter.

Competition for cream has grown in recent years as U.S. consumers turn to higher-fat dairy products, eating more sour cream and drinking 2% or whole milk over skim, CoBank's Mr. Ehmke said.

Trevor Wuethrich, president of Wisconsin-based Grassland Dairy Products Inc., said his company is searching for cream to make more butter this fall as customers place larger-than-normal orders. At the same time, he said butter makers are trying not to overproduce.



“What happens when orders stop? Now everyone is holding \$3 butter and the market crashes,” Mr. Wuethrich said.

AMPI’s Mr. Reece said he has warned retailers not to discount butter too aggressively during the holiday season, telling them: “Don’t go crazy. You can’t have a fire sale on butter, we won’t be able to supply you.”

Kristi Peterka, a factory worker who recently began selling baked goods in Yankton, S.D., said she has been furiously stocking up on butter during store sales, adding to the roughly 40 pounds she has stacked in an extra refrigerator.

Since she began selling homemade desserts a year and a half ago, local butter prices have surged 30% to \$5.19 per pound, Ms. Peterka said. Recently, she said a nearby supermarket offered butter for one day for \$1.68 per pound, with a limit of 2 pounds per purchase. During such sales, Ms. Peterka said she enlists help, sending her parents and in-laws shopping, too.

“I have kind of a butter army,” Ms. Peterka said.

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### Corrections & Amplifications

Tanner Ehmke is an economist at agricultural lender CoBank. An earlier version of this article misspelled his surname as Emkhe. (Corrected on Sept. 22)

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## Inflation and the Economy

Analysis from The Wall Street Journal, selected by the editors

**TRACK YOUR OWN INFLATION**

**Inflation Remained High in August**

**Fed Raises Interest Rates Again**

**The Fed's Surprising Record With Soft Landings**

**High Food Prices Are Getting to People**

**Climbing Housing Costs Prop Up Inflation**

**Electric Bills Soar Across the Country**

**It Now Costs \$300,000 to Raise a Child**

**Are We in a Recession Now?**

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*Appeared in the September 23, 2022, print edition as 'Butter Cost Rises on Tight Supply'.*

<https://www.wsj.com/articles/the-market-still-isnt-priced-for-a-proper-recession-11663857523>

MARKETSSTREETWISE

# The Market Still Isn't Priced for a Proper Recession

Markets are doing what they always do, hoping against hope that there's no recession, or at least a very mild one, right up to the last minute

*By James Mackintosh*

Sept. 22, 2022 10:38 am ET

The stock market is almost always late to wake up to the threat of recession, but it's increasingly hard to miss the warnings from the Federal Reserve. Not only might there be a recession, but the Fed has no intention of stepping in to save investors this time.

The problem is one I've been banging on about all year: Investors still aren't factoring in much threat to earnings, even though recessions almost always hit earnings hard. Instead, most of the fall in stock prices has been due to rising rates lowering valuations. There's been an acceptance of slightly lower earnings for this year, at least when the oil windfall boosting energy companies is excluded, but Wall Street continues to predict decent profit growth next year.

Put another way: Investors still hope for a fairly soft landing. The problem is that the Fed has clearly lost confidence in its own ability to engineer an economic slowdown that avoids recession. As that message sinks in, expect stock prices to sink further.

The key question, of course, is how much risk to earnings is priced in already. After all, stocks are down 20% this year and only 3% above their June low, confirming that the bear market continues.

One approach is to compare now to before the pandemic. Of the current members of the S&P 500, 85% have higher forecast earnings per share for the next 12 months than they did in February 2020. At the same time, 81% trade at lower multiples of those forecasts.

This divergence reflects two obvious factors, and a third up for debate. The first is the pandemic itself, which boosted the earnings of many of the tech firms that dominate the

market, and overall profit margins. The second is the valuation of their future growth, reduced by the Fed pushing up interest rates.

The third factor that explains the difference is the risk to future growth. Earnings forecasts don't come with probabilities, so if I think there's more danger of a recession I should put less value on those future earnings. The bull case would be that this is already happening, hence the lower valuation, so investors won't be shocked by a recession. After all, a majority of fund managers surveyed by Bank of America already say that a recession is likely, the highest since 2020 and before that 2009.

There is definitely some of this recession prep going on. But the strong link between forward price-to-earnings ratios and real rates, as captured by the yield on 10-year Treasury inflation-protected securities, shows that still most of the decline in stocks this year wasn't about the threat to earnings, merely the mechanical effect of the Fed. That's backed up by the biggest losers being the most extreme growth stocks, which in principle ought to be less affected by recession than sellers of less innovative products.

There hasn't been a lot of recession preparation in the bond markets, either. The most reliable bond market predictor of downturns is the three-month Treasury bill yield rising above the 10-year yield, which has yet to happen. A bit of worry was visible in the bond market on Wednesday, with the 10-year yield dropping even as the two-year yield rose—implying investors expect higher rates to slow the economy enough to allow lower rates on average over the decade—but such moves have been rare this year.

It's also hard to price a recession when there's so much money sloshing around and the jobs market is so strong. Pandemic-era savings are being used up but are still high. There are almost two job vacancies for every job seeker, and despite the drumbeat of big companies cutting back staff, last week initial jobless claims hit their lowest level since 1969, when not adjusted for seasonality. Those paid hourly who switched job got a median pay rise of 8.4% annualized in the three months to August, according to the Atlanta Fed, the highest since its data started in 1997 and higher than the Fed's preferred measure of inflation.

In normal times this would be great news. Strong consumers mean a stronger economy, higher profits even after paying bigger wages and good times on Wall Street. But when the Fed is deliberately trying to weaken the job market and limit wage rises, signs of strength in the economy just mean even more Fed action is needed to crush it.

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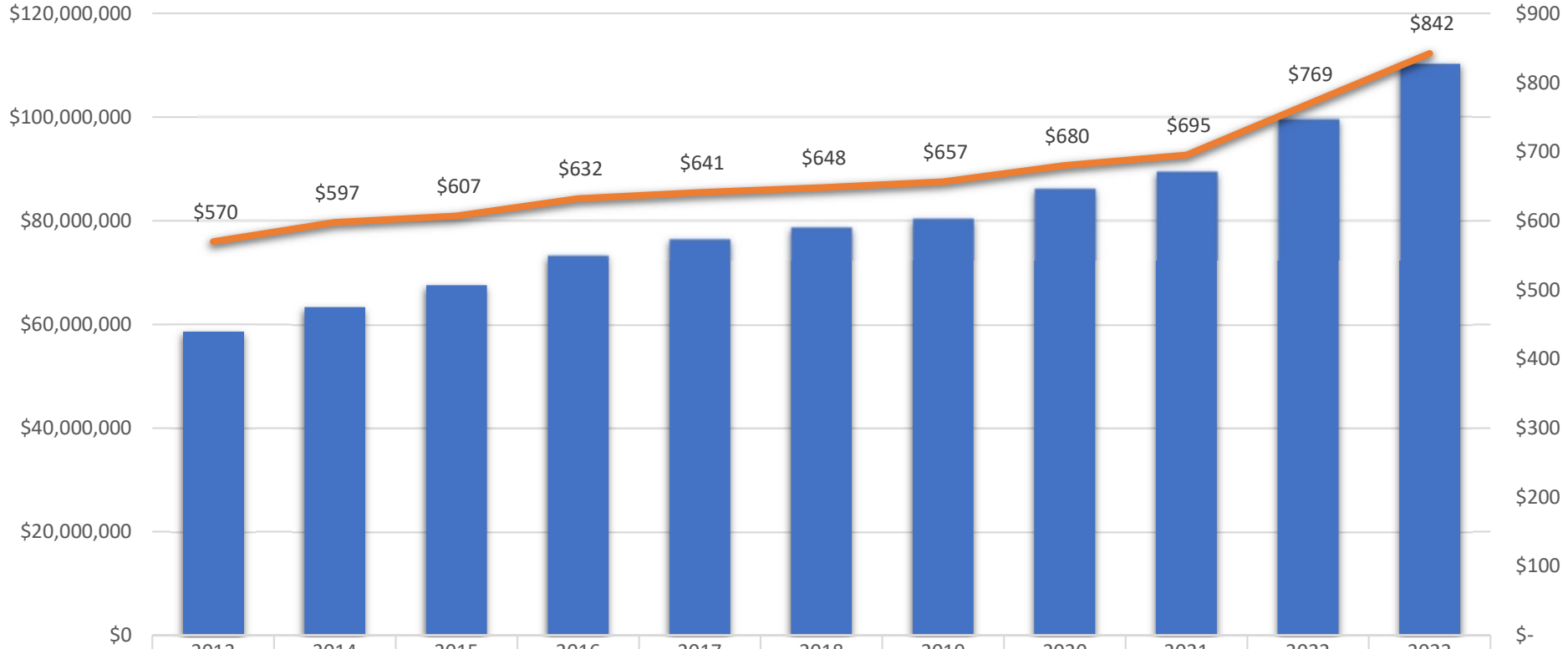
My view is that the markets are doing what they always do, hoping against hope that there's no recession, or at least a very mild one, right up to the last minute. I was hoping for such a benign outcome earlier this year, but it now seems unlikely. Historically it has occasionally worked out, as in the 1990 recession, when earnings barely dropped and the S&P bottomed out with a 19.9% fall, or the 1994 soft landing, when stocks fell less than 10%.

Usually it doesn't work out, however, and the drop in valuations is merely the first step, as recession eviscerates earnings expectations and leads to another leg down in share prices. I'll be a buyer when a recession like this starts to be priced in.

Write to James Mackintosh at [james.mackintosh@wsj.com](mailto:james.mackintosh@wsj.com)

*Appeared in the September 23, 2022, print edition as 'Market Still Isn't Priced for Recession'.*

## Pearland General Fund Expenses Per Citizen



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<span style="color: blue;">■</span> Pearland General Fund	\$58,575,000	\$63,349,000	\$67,520,000	\$73,273,000	\$76,454,035	\$78,716,000	\$80,424,000	\$86,212,000	\$89,471,000	\$99,624,000	\$110,256,000
<span style="color: orange;">—</span> Cost per Pearland Citizen	\$570	\$597	\$607	\$632	\$641	\$648	\$657	\$680	\$695	\$769	\$842

**Notes**

1. Budget data from City of Pearland
2. Population estimates from City of Pearland population website and US Census Bureau

# CITY OF PEARLAND

## Fiscal Year 2022-2023

### Budget Cover Page

This budget will raise more revenue from property taxes than last year's budget by an amount of \$10,757,831, which is an 18.28 percent increase from last year's budget. The property tax revenue to be raised from new property added to the tax roll this year is \$1,466,831.

The members of the governing body voted on the budget as follows:

**FOR:**

**AGAINST:**

**PRESENT** and not  
voting:

**ABSENT:**

#### Property Tax Rate Comparison

	<b>2022-2023</b>	<b>2021-2022</b>
Property Tax Rate:	\$0.628765/100	\$0.701416/100
No-New-Revenue Tax Rate:	\$0.543044/100	\$0.735485/100
No-New-Revenue Maintenance & Operations Tax Rate:	\$0.245649/100	\$0.321489/100
Voter-Approval Tax Rate:	\$0.633611/100	\$0.737016/100
Debt Rate:	\$0.343765/100	\$0.392000/100

Total debt obligation for CITY OF PEARLAND secured by property taxes:  
**\$44,123,666**